

Message Text

LIMITED OFFICIAL USE

PAGE 01 CARACA 03823 302321Z

71

ACTION ARA-20

INFO OCT-01 ISO-00 AGR-20 CEA-02 CIAE-00 COME-00 DODE-00

EB-11 FRB-02 H-03 INR-10 INT-08 L-03 LAB-06 NSAE-00

NSC-07 PA-04 RSC-01 AID-20 CIEP-02 SS-20 STR-08

TAR-02 TRSE-00 USIA-15 PRS-01 SP-03 FEA-02 OMB-01

SWF-02 FPC-01 SCI-06 FTC-01 DRC-01 /183 W

----- 118991

R 302125Z APR 74

FM AMEMBASSY CARACAS

TO SECSTATE WASHDC 3601

INFO AMEMBASSY BOGOTA

AMEMBASSY LA PAZ

AMEMBASSY LIMA

AMEMBASSY QUITO

AMEMBASSY SANTIAGO

LIMITED OFFICIAL USE CARACAS 3823

E.O. 11652: N/A

TAGS: EGEN, ETRD, EFIN, VE

SUBJECT: PRESIDENT PEREZ' NEW ECONOMIC DECREES -
DECISION 24 - EFFECT ON SEARS ROEBUCK

REF: CARACAS 3769

1. EMBOFF WAS TOLD BY PRESIDENT OF SEARS, VENEZUELA, FRED EATON, THAT GOV'S STRICT APPLICATION OF ARTICLE 43 OF DECISION 24 WILL HAVE VERY ADVERSE EFFECT ON OPERATION OF HIS COMPANY IN VENEZUELA. SINCE SEARS FALLS UNDER CATEGORY OF INTERNAL COMMERCE IT WILL BE NECESSARY TO WIND DOWN TO 20 PER CENT OWNERSHIP WITHIN NEXT THREE YEARS.

2. EATON LAMENTED FACT THAT SEARS HAD BEEN GOOD CORPORATE CITIZEN OF VENEZUELA AND SAW NO REASON FOR SUCH ACTION BY GOV.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 CARACA 03823 302321Z

3. IN RESPONSE TO QUESTION, EATON SAID THAT SEARS, UNLIKE SOME OTHER COMPANIES, WOULD HAVE NO TROUBLE UNWINDING, SINCE HE HAS HAD NUMEROUS REQUESTS BY VENEZUELAN CITIZENS IN PAST TO MAKE SEARS STOCK AVAILABLE TO THEM ON CONDITION THAT SEARS WOULD MAINTAIN MANAGEMENT. EATON SAID IF HIS COMPANY DID DECIDE TO STAY IN VENEZUELA AND UNWIND, THERE WOULD BE NO DIFFICULTY IN ARRANGING SALE OF STOCK IN SUCH A WAY THAT THE 80 PERCENT VENEZUELAN-OWNED STOCK COULD BE SUFFICIENTLY DIVERSIFIED TO ENABLE SEARS TO CONTINUE EXERCISING CONTROL.

4. EASTON SAID EVEN MORE DAMAGING TO SEARS' OPERATIONS THAN REQUIREMENT TO BECOME VENEZUELAN WAS NEW CREDIT LIMITATIONS BEING IMPOSED BY GOV WHICH SETS MAXIMUM INTEREST RATE ON CONSUMER CREDIT AT 18 PERCENT. EATON STATED THAT IN ORDER TO BREAK EVEN, SEARS MUST CHARGE MINIMUM OF 23 PERCENT SINCE PRICE CONTROLS LIMIT AMOUNT OF MARK-UP WHICH COMPANY CAN OBTAIN. HE SAID 62 PERCENT OF COMPANY'S SALES ARE BASED ON CREDIT AND THAT CREDIT OPERATIONS HAVE BEEN COMPENSATING FOR LOSSES SUSTAINED FROM INSUFFICIENT MARK-UP.

5. WHILE SEARS CASE IS ONE OF MOST OBVIOUS IN FIELD ON INTERNAL COMMERCE, IT IS BY NO MEANS UNIQUE. THERE ARE MANY COMPANIES THAT WILL HAVE TO UNWIND BECAUSE THEY ARE CONSIDERED TO BE TYPES OF INTERNAL COMMERCE. DECISION FACING THESE COMPANIES IS WHETHER THERE IS SUFFICIENT INTEREST REMAINING IN THEIR OPERATIONS AS A 20 PERCENT OWNER COMPARED TO THEIR PREVIOUS POSITION OF MAJORITY CONTROL. WHILE ACTUAL IMPLEMENTATION OF ECONOMIC DECREES CONNECTED WITH DECISION 24 MAY BE MODERATE, GENERAL ATTITUDE PERMEATING AMERICAN BUSINESS COMMUNITY RIGHT NOW IS ONE OF EXTREME PESSIMISM. IF WORST FEARS OF MANY SUBSIDIARIES OF AMERICAN BUSINESS OPERATING IN VENEZUELA ARE JUSTIFIED, WASHINGTON CAN EXPECT HOWLS OF COMPLAINT FROM MANY COMPANY HEADQUARTERS IN U.S.

6. IN ONE WAY IT WAS FORTUITOUS THAT AMBASSADOR EBERLE AND OTHER REPRESENTATIVES OF U.S. GOVERNMENT ECONOMIC COMMUNITY HAPPENED TO BE IN CARACAS DAY PRESIDENT PEREZ DELIVERED HIS NEW ECONOMIC POLICIES, WHICH SOME LONG-TIME RESIDENT BUSINESSMEN HAVE DESCRIBED AS MOST SIGNIFICANT ECONOMIC CHANGES TO HAVE TAKEN PLACE DURING THEIR TENURE HERE.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 CARACA 03823 302321Z

7. AMBASSADOR EBERLE DURING HIS CONSULTATIONS MADE POINT TO VENEZUELAN GOVERNMENT OFFICIALS THAT TRANSFER OF TECHNOLOGY, PARTICULARLY OF UNWRITTEN TYPE, DEPENDS ON OPERATIONS OF PRIVATE FOREIGN INDUSTRY. VENEZUELANSE SEEM TO BE OPERATING UNDER BELIEF THAT BECAUSE OF THEIR EXCESS OIL REVENUE THEY DO NOT NEED INVESTMENT AND THAT THEY CAN BUY TECHNOLOGY. IT REMAINS TO BE SEEN HOW LONG IT TAKES THEM TO UNDERSTAND THAT IT IS DIFFICULT TO

BUY ON-GOING TECHNOLOGY IN ABSENCE OF POSSIBILITY OF FOREIGN FIRMS
TO PARTICIPATE IN ECONOMY THROUGH INVESTMENT.

8. EMBASSY WILL CONTINUE TO SUBTLY POINT OUT TO GOV CONNECTION
BETWEEN TECHNOLOGY TRANSFER AND CONTINUED OPERATION OF U.S.
INVESTMENT HERE WITH HOPE OF MODERATING WHAT APPEARS TO BE
EXTREME INTERPRETATION OF DECISION 24 OF ANDEAN PACT.
MCCLINTOCK

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC DEVELOPMENT, INVESTMENT LAW, SPEECHES, ECONOMIC PROGRAMS, FOREIGN INVESTMENTS, SUBSIDIARIES
Control Number: n/a
Copy: SINGLE
Draft Date: 30 APR 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974CARACA03823
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740103-0668
From: CARACAS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t1974044/aaaaacnr.tel
Line Count: 122
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: CARACAS 3769
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 09 SEP 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <09 SEP 2002 by boyleja>; APPROVED <11 FEB 2003 by GolinoFR>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: PRESIDENT PEREZ' NEW ECONOMIC DECREES - DECISION 24 - EFFECT ON SEARS ROEBUCK
TAGS: EGEN, ETRD, EFIN, VE, US, SEARS ROEBUCK & CO
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005